

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07
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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 3034

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMCONSUL MEDAN

AMEMBASSY SINGAPORE

AMCONSUL SURABAYA

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 10635

E..O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: THE PETROLEUM SCENE

REF: EAL

1. SUMMARY: IT HAS BEEN ONE YEAR SINCE GOI REWROTE TERMS ON PRODUCTION-SHARING CONTRACTS WITH OVER TWENTY FOREIGN OIL COMPANIES, MAJORITY OF THEM AMERICAN. TODAY, OIL PATCH IS FAIRLY QUIET; CONTRACTORS ARE STILL EXAMINING PERTAMINA'S RECENT INCENTIVES IN HOPES OF FURTHER MODIFICATIONS WHILE AWAITING CLARIFICATION FROM IRS ON TAX CREDITS. ONLY HANDFUL OF COMPANIES ARE CONDUCTING REGULAR DISCUSSIONS WITH PERTAMINA REGARDING 1978 DEVELOPMENT PROGRAMS. SOME THOUGHT IS BEING GIVEN WITHIN GOI TO CREATION OF SPECIAL TERMS FOR DEVELOPMENT OF "MARGINAL RESERVES" AND TO SPECIAL JOINT
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VENTURE ARRANGEMENTS WITH PERTAMINA. ON BALANCE, OUTLOOK FOR 1978 CALLS FOR LEVEL OF DRILLING TO IMPROVE SLIGHTLY WITH SPENDING FOR DEVELOPMENT ACTIVITIES TO SHOW LARGER INCREASE. BIGGER QUESTION MAKES LOOMS FOR PRODUCTION; PERTAMINA NOW BELIEVES LATE 1978 OR EARLY 1979 COULD WITNESS SIGNIFICANT DECLINES IF EXPLORATION REMAINS DEPRESSED. END SUMMARY.

2. THIS MESSAGE ATTEMPTS TO SUMMARIZE CURRENT AND PRO-
JECTED DEVELOPMENTS IN INDONESIA AS OIL SECTOR. ON SURFACE,
EVERYTHING IS RELATIVELY QUIET; COMPANIES ARE STILL
EVALUATING RECENT INCENTIVE PACKAGE WHICH HAS NOT YET
PRODUCED ANY DRAMATIC UPSWING IN EXPLORATION ACTIVITY.
THEY ARE ALSO AWAITING WORD FROM IRS ON STATUS OF TAX
CREDITS FOR PAYMENTS TO PERTAMINA UNDER PRODUCTION-
SHARING CONTRACTS. PERTAMINA HAS BEEN MEETING INFORMALLY
WITH CERTAIN CONTRACTORS WHO ARE ABOUT TO BEGIN OR ARE
CONTEMPLATING 1978 WORK PROGRAMS. AT PRESENT, PERTAMINA
IS HOLDING DISCUSSIONS WITH CONOCO (DEVELOPMENT PROGRAM
IN SOUTH CHINA SEA); AGIP (EXTENSION OF CONTRACT AREA
AND POSSIBLE DEVELOPMENT PROGRAM IN SOUTH CHINA SEA);
PHILLIPS (IRAIAN JAYA, DEVELOPMENT AND SOUTH CHINA SEA,
EXPLORATION); MOBIL (EXPLORATION ON AND OFFSHORE NORTH
SUMATRA); AND BP (POSSIBLE EXPLORATION IN SOUTH SULAWESI).
COMMENT: AGIP'S PROPOSED PROGRAM IS CLOSE TO, IF NOT
ACTUALLY IN, DISPUTED OFFSHORE BOUNDARY AREA WITH SRV.
END COMMENT. ACCORDING TO PERTAMINA'S CHIEF NEGOTIATOR,
IR. D. ZAHAR, OBJECTIVE OF DISCUSSIONS IS TO EXAMINE
CONTRACTOR'S SUBMISSIONS ON CASE-BY-CASE BASIS TO DETER-
MINE IF THEIR PROPOSALS CAN BE FIT INTO PERTAMINA'S
NEW EQUITY AND COST RECOVERY TERMS. ZAHAR SAID SOME
FLEXIBILITY EXISTED ON PART OF PERTAMINA, MOSTLY ON
TECHNICAL ISSUES RELATED TO COST RECOVERY. THERE WAS
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NO INDICATION OF ANY CHANGE IN 85/15 PRODUCTION-SHARING
ARRANGEMENT, HOWEVER.

3. PERTAMINA IS GIVING SERIOUS THOUGHT TO SPECIAL OR AT
LEAST MODIFIED TERMS FOR DEVELOPMENT OF "MARGINAL RE-
SERVES." SEVERAL CONTRACTORS HAVE TOLD PERTAMINA THAT THEY
HAVE SMALL STRUCTURES OF 25 MILLION BARRELS OR LESS
WHICH FEATURE LIVELY PLAY BUT RAPID DEPLETION, I.E. LESS
THAN FIVE YEARS. NATOMAS/IIAPCO HAS MADE PROPOSAL TO
PERTAMINA FOR RECOVERY OF THESE RESERVES, SOME FOUND IN
STRUCTURES OF LESS THAN THREE MILLION BARRELS, WHICH
PERTAMINA IS STUDYING WITH INTEREST. ALTHOUGH NO POLICY
HAS YET EMERGED, THIS COULD BE A WELCOME DEVELOPMENT AND
CONTRIBUTE GREATLY TO DEVELOPMENT OF SEVERAL SUCH STRUCTURES
WHICH ARE FOUND THROUGHOUT ARCHIPELAGO.

4. IN EFFORT TO STIMULATE PERTAMINA'S OWN EXPLORATION-
DEVELOPMENT PROGRAM, WHICH HAS SUFFERED SHARP FUNDING
CUTBACKS IN WAKE OF COMPANY'S FINANCIAL CRISIS, SEVERAL
PROPOSALS FOR JOINT VENTURE ARRANGEMENTS HAVE BEEN PUT
FORWARD, INCLUDING PLAN FOR 50/50 PARTICIPATION IN SOME
OF PERTAMINA'S CONTRACT AREAS. RECENT TENDERS FOR TWO

BLOCKS IN IRIAN JAYA ARE ABOUT TO BE AWARDED TO CONOCO AND TOTAL. PERTAMINA REPORTS SATISFACTION OVER LEVEL OF COMPANY PARTICIPATION IN THIS TENDER, WHICH APPEARS TO INDICATE INTEREST IN NEW AREAS HAS NOT DIED COMPLETELY. NEW BLOCK IN NORTHEAST KALIMANTOAN WILL BE TENDERED IN OCTOBER; TEN COMPANIES HAVE EXPRESSED PRELIMINARY INTEREST. TWO OTHER SCHEMES UNDER CONSIDERATION INVOLVE SECONDARY RECOVERY AND DATA SEARCH ON PERTAMINA AREAS. BASIC EARTH SCIENCE SYSTEMS OF DENVER AND SUN OIL HAVE PROPOSED MAJOR \$300 MILLION WATERFLOOD SECONDARY RECOVERY PROGRAM FOR SOME OF PERTAMINA'S OLDER SUMATRAN FIELDS. THIS PROPOSAL IS STILL IN EARLY STAGES OF DISCUSSION. (DETAILS ON CALTEX'S SECONDARY RECOVERY PROGRAM ARE COVERED IN JAKARTA A-94 OF AUGUST 5.) OTHER ARRANGEMENT INVOLVES UPGRADING ANALYSIS
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OF VARIOUS SEISMIC LOGS AND SIMILAR DATA WHICH HAVE BEEN COLLECTED IN PIECEMEAL FASHION SINCE EARLY DAYS OF INDONESIAN EXPLORATION ACTIVITIES. COMPANY WHO DEVELOPS DATA WOULD HAVE FIRST REFUSAL RIGHTS ON POSSIBLE JOINT VENTURE CONTRACT WITH PERTAMINA FOR DEVELOPMENT CERTAIN AREAS.

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5. CASTING SHADOW OVER ALL THESE INITIATIVES, HOWEVER, IS IRS SITUATION. PERTAMINA'S LEGAL ADVISORS, ROGERS AND WELLS, HAVE BEEN ASKED TO SEND REPRESENTATIVE TO JAKARTA FOR DISCUSSIONS WITH GOI AND INDUSTRY. PETER FISHER OF RW SLATED TO ARRIVE THIS WEEK FOR DISCUSSIONS. COMMENT: GOI REMAINS FIRM ON QUESTION OF CONSOLIDATION. PERTAMINA'S ZAHAR TOLD EMBOFF THAT ATTRACTIVE BP PROPOSAL WAS RECENTLY TURNED DOWN BECAUSE IT CONTAINED TERMS CALLING FOR CONSOLIDATION.

6. BECAUSE MOST COMPANIES ARE STARTING TO PREPARE FOR 1978 BUDGET PROGRAMS, IT IS SOMEWHAT SOON TO PREDICT WITH PRECISION WHAT CUMULATIVE LEVEL OF EXPLORATION AND DEVELOPMENT ACTIVITY WILL BE LIKE IN COMING MONTHS. ON BALANCE, OUTLAYS FOR DEVELOPMENT (PRODUCTION FACILITIES) COULD AMOUNT TO ABOUT \$250 MILLION WHICH IS ABOVE 1977
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ESTIMATE (\$183 MILLION) BUT FAR BELOW 1976'S FIGURE OF \$510 MILLION. CONOCO, PHILLIPS, ARCO, TOTAL, CALTEX, AND POSSIBLY AGIP ARE CONSIDERING EXPENDITURES. FORECAST FOR WILDCAT DRILLING CALLS FOR ONLY SLIGHT IMPROVEMENT OVER LAST YEAR'S SPENDING LEVEL OF \$77 MILLION. IT IS DOUBTFUL MORE THAN 60 WILDCATS WILL BE SPUDDED BETWEEN NOW AND MID-1978. UNION, CITIES SERVICE, AMOSEAS HAVE OR ARE ABOUT TO RELEASE RIGS WITH NO PLANS TO CALL THEM BACK.

7. PERTAMINA BELIEVES PRODUCTION SHOULD HOLD AT OR NEAR CURRENT LEVELS AT LEAST THROUGH MID-1978. NEW OUTPUT FROM PHILLIPS (40,000 B/D), MOBIL (UP TO 60,000 B/D OF CONDENSATE), ARCO (12,000 B/D) AND CALTEX (ROUGHLY 25,000 B/D) IS EXPECTED WITHIN NEXT TWELVE MONTHS. THIS SHOULD, ACCORDING TO PERTAMINA, OFFSET DECLINING PRODUCTION FROM COMPANIES LIKE IAPCO AND PETROMER TREND. BEYOND THAT, HOWEVER, THERE IS GREATER UNCERTAINTY. PERTAMINA OFFICIALS HAVE EXPRESSED CONCERN THAT SHARP DECLINES COULD BEGIN BY LATE 1978 IN ABSENCE OF ANY EXPLORATION OR DEVELOPMENT WORK.

8. COMMENT: IT IS ENCOURAGING TO NOTE THAT SUSPICION AND OCCASIONAL BITTERNESS WHICH CHARACTERIZED RELATIONS BETWEEN COMPANIES AND PERTAMINA LAST SUMMER APPEAR TO HAVE DISAPPEARED. FACT THAT GOI/PERTAMINA AT LEAST THINKING ABOUT NEW EXPLORATION SCHEMES IS ALSO HOPEFUL SIGN. RECOGNITION, HOWEVER, IS NOT SAME AS IMPLEMENTA-

TION; UNLESS GOI MOVES QUICKLY, MUST OF 1978 COULD ALSO
BE LOST TO EXPLORATION. END COMMENT.
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Message Attributes

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